

## Montana Taxation of Railroads

- State Taxation of Railroads is Limited by the ***Federal Railroad Revitalization and Regulatory Reform Act of 1976 ("4R's Act")***
- 4R's Act Prevents State Discrimination in Taxation of Railroads by Prohibiting:
  - Assessment of rail transportation property at higher ratio of assessment value to true market value than for that of all other commercial and industrial property;
  - The levying of taxes on rail transportation property at a tax rate higher than that applied to all other commercial and industrial property; and
  - The imposition of other taxes that discriminate against rail transportation property.

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## Property Taxes on Railroads in Montana Basic Formula

In general, property taxes in Montana are calculated as follows:

- $\text{Market Value} \times \text{Taxable Valuation Rate} = \text{Taxable Value}$
- $\text{Taxable Value} \times \text{Mill Levy} = \text{Tax Liability}$

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## Part I - Property Taxes on Railroads in Montana

### 5 Step Process:

- Calculate Total System Value
- Allocate Portion of Total System Value to Montana
- Allocate Montana Value to Taxing Jurisdictions
- Calculate Taxable Valuation Rate and Taxable Value
- Apply Mill Levies to Determine Total Tax Liability

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## Property Taxes on Railroads in Montana

- Railroads, similar to other industries, are subject to the “unit valuation” (central assessment) approach to property taxation
- Unlike other types of centrally-assessed property, however, the unit (systemwide) value of railroads is established not through an annual appraisal of market value, but through a formulary approach

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## Calculate Total System Value

(Beginning with TY1999)

Current Year Total System Value =  
"Base Value" X "Value Change Factor"

"Base Value" is Total System Value in Prior Year

"Value Change Factor" is Determined by Three  
- Factor Formula Provided for at 15-23-205,MCA

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## Calculate Total System Value - "Value Change Factor"

The "Value Change Factor" is the Sum of  
Three Factors Weighted as Follows:

- The "Income Change Factor" (50%)  
(Change in Earnings) / (Change in Capitalization Rate)
- The "Gross Profit Margin Change Factor" (25%)  
$$\frac{(\text{Gross Profit Margin}_{t-1} + \text{Gross Profit Margin}_{t-2})}{(\text{Gross Profit Margin}_{t-2} + \text{Gross Profit Margin}_{t-3})}$$
- The "Property Change Factor" (25%)  
(System Cost<sub>t-1</sub>) / (System Cost<sub>t-2</sub>)

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## Allocate Portion of Total System Value to Montana

Value Allocated to Montana Equals:

“Total System Value”

X

Average “Montana Allocation Factor”  
(over previous two years)

“Montana Allocation Factor” is provided for at 15-23-  
205(5), MCA

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## Allocate Value to Montana - “Montana Allocation Factor”

“Montana Allocation Factor” is the average of the  
following five ratios:

- Montana Track Miles / Systemwide Track Miles
- Montana Revenue Ton Miles / Systemwide Revenue  
Ton Miles
- Montana Investment in Road and Equipment /  
Systemwide Investment in Road and Equipment
- Montana Operating Revenue / Systemwide Operating  
Revenue
- Montana Railcar and Locomotive Miles / Systemwide  
Railcar and Locomotive Miles

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## Allocate Montana Value Across Taxing Jurisdictions

- Allocation procedure provided for in rule (42.22.122, ARM)
- Total Montana Value is Divided Between
  - “Situs” Value (e.g., buildings) and
  - “Non-situs” Value (e.g., track mileage)

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## Allocate Montana Value Across Taxing Jurisdictions

- **Non-situs property** is allocated on the basis of track mileage weighted
  - 100% for mainline track
  - 60% for branch line track, and
  - 40% for side track
- **Situs property** is allocated on the basis of rules provided for at 42.22.122, ARM.

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## Calculate Taxable Valuation Rate

- Calculation of Taxable Valuation Rate for Railroads (Class 12 Property) is Provided for at 15-6-145, MCA
- Calculation is Specifically Designed to Comport with the Requirements of the Railroad Revitalization and Regulatory Reform Act of 1976 (4R's Act)
- Rate Reflects Average Composite Rate Applied to All Commercial Property in State (Adjusted by Sales Ratio Study for Class 4 Commercial Property)

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